Nos. 14-1513 & 14-1520

In the
Supreme Court of the United States

HALO ELECTRONICS, INC.,
Petitioner,

v.

PULSE ELECTRONICS, INC., ET AL.,
Respondents.

STRYKER CORPORATION, ET AL.,
Petitioners,

v.

ZIMMER, INC., ET AL.,
Respondents.

On Writs of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR *AMICI CURIAE* GOOGLE INC., CISCO SYSTEMS, INC., VERIZON COMMUNICATIONS INC., AND SALESFORCE.COM, INC., IN SUPPORT OF RESPONDENTS

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CORPORATE DISCLOSURE STATEMENT

Google Inc. is a wholly owned subsidiary of Alphabet Inc.; accordingly, Alphabet Inc. has more than 10% ownership of Google Inc. No publicly held corporation owns more than 10% of Alphabet Inc.'s stock.

Cisco Systems, Inc., has no parent corporation and no publicly traded corporation owns 10% or more of its stock.

salesforce.com, inc. has no parent corporation and no publicly traded corporation owns 10% or more of its stock.

Verizon Communications Inc. has no parent corporation and no publicly traded corporation owns 10% or more of its stock.

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STATEMENT OF INTEREST[1]

Amici Google, Cisco Systems, salesforce.com, and Verizon are leading providers of high-technology products and services and leaders in their respective fields. Having obtained patents based on their own research and development efforts, and also having spent considerable resources defending themselves against hundreds of meritless infringement claims, *amici* support a balanced patent system that discourages both infringement and meritless allegations of infringement. *Amici* believe that a construction of 35 U.S.C. §284 that makes enhanced damages available only for the most egregious infringing conduct, and maintaining an objective component as a necessary element of an enhanced damages determination, are critical to that balance. *Amici* also believe that the need for balance in the patent system has never been more important. The ever-increasing number of patent assertion entities (PAEs) and suits brought by those entities—often in forums singled out as unfavorable for accused infringers—underscores the need for limiting the

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[1] Pursuant to Supreme Court Rule 37.6, counsel for *amici* represent that they authored this brief in its entirety and that none of the parties or their counsel, nor any other person or entity other than *amici* or their counsel, made a monetary contribution intended to fund the preparation or submission of this brief. Pursuant to Rule 37.3(a), counsel for *amici* represent that all parties have consented to the filing of this brief. The parties in No. 14-1513 and petitioners in No. 14-1520 filed letters with the Clerk granting blanket consent; written consent of respondents in No. 14-1520 is being submitted contemporaneously with this brief.

availability of enhanced damages to a predictable universe of cases where they are truly warranted.

SUMMARY OF ARGUMENT

Before the Federal Circuit's decision in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), the patent system was plagued by dysfunction, imbalance, and perverse incentives. These problems stemmed in part from the pre-*Seagate* standard for enhanced damages under 35 U.S.C. §284. The pre-*Seagate* standard focused on whether, at the time of infringement, defendants reasonably believed they were not infringing a valid patent. In order to meet this burden, companies in the pre-*Seagate* era were forced to obtain opinions from outside counsel regarding whether their conduct was permissible whenever they learned about new patents. Then, if they were sued for infringement, they would introduce the opinion to demonstrate that they complied with the then-prevailing standard in an effort to avoid enhanced damages.

This *de facto* opinion-of-counsel requirement created substantial mischief. For one, the requirement imposed massive costs on technology companies like *amici*, who receive notice of new patents on a continual basis. Even more troubling, producing an opinion of counsel during litigation was construed to waive attorney-client privilege. This created imbalance in patent cases and exerted undue settlement pressures on accused infringers. The opinion-of-counsel requirement also eroded the privilege itself, eliminating the promised confidentiality that ensures full and frank discussions between attorney and client. Indeed, the pre-*Seagate*

status quo was sufficiently dire that—in a result antithetical to the animating purpose of patent law—companies actually feared reading new patents as doing so would trigger the opinion-of-counsel requirement, encourage willful infringement allegations, and force a waiver of privilege.

The Federal Circuit corrected these problems in *Seagate* by adopting a standard for enhanced damages that is both faithful to the text of section 284 and accords with this Court's precedent. Consistent with the text of the statute, *Seagate* recognizes that the only conduct relevant to deciding whether to enhance damages is conduct directly related to the defendant's alleged infringement. Consistent with this Court's punitive damages precedents, *Seagate* requires a showing of willfulness before punishing an infringer with enhanced damages. The result is a standard that assesses whether the accused infringer acted despite an objectively high risk of infringement, without also forcing the accused infringer to submit an opinion of counsel in every patent case to prove the overlap between the advice of counsel and the defenses at trial.

Petitioners call for a return to the pre-*Seagate* status quo. They argue the enhanced damages inquiry should focus on how thoroughly the accused infringer investigated the possibility of infringement and that an accused infringer should not be able to raise defenses at trial unless it can prove it relied on those same defenses to justify its primary conduct. That sort of standard would re-impose the opinion-of-counsel requirement: companies cannot prove they held certain legal views in the past without introducing those legal views into evidence. This

Court need not imagine the parade of horribles that would result from petitioners' suggested standard; that parade already marched for a quarter-century before the Federal Circuit's course-correction in *Seagate*.

Nor is petitioners' argument helped by this Court's recent decisions in *Octane Fitness* and *Highmark*. Those cases dealt with the very different text of section 285 and the very different context of attorneys' fees. In *Seagate*, the Federal Circuit appropriately interpreted section 284 in light of the statutory text, the Due Process limits on punitive damages, and the broader goals of the patent system. Section 285 has no bearing here.

In all events, whatever else this Court does, it should retain an objective component as part of the section 284 inquiry. An objective standard will enable the Federal Circuit to meaningfully oversee the development of the enhanced damages test, promoting uniformity, certainty. and all-too-important balance in the patent system.

ARGUMENT

I. *Seagate* Provides The Correct Standard For Awarding Enhanced Damages Under Section 284.

In *Seagate*, the Federal Circuit held that a patentee may obtain increased damages for patent infringement under 35 U.S.C. §284 if it proves "that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent" and that "this objectively-defined risk ... was either known or so obvious that it should have been known to the accused infringer." 497 F.3d

at 1371. In light of the plain text of section 284 and this Court's unbroken line of precedent addressing the availability of punitive damages, the three key underpinnings of *Seagate* should be beyond dispute. First, the only conduct relevant to deciding whether increased damages are warranted under section 284 is primary conduct—*i.e.*, the defendant's infringement-related conduct. Second, only infringement-related conduct that is of a sufficient level of culpability—*i.e.*, willfulness—warrants the imposition of punitive damages. Third, willfulness must be measured objectively, with a focus on the risk of harm created by the defendant's actions. These complementary propositions definitively establish that the *Seagate* standard is the correct one.

1. The text and structure of section 284 make clear that the only conduct relevant to deciding whether increased damages are warranted is infringement-related conduct. Section 284, which defines the universe of damages available for patent infringement, provides in relevant part:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate *for the infringement*, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.
>
> When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph

> shall not apply to provisional rights under section 154(d).

35 U.S.C. §284 (emphasis added).

The text of section 284 tethers enhanced damages to the act of infringement itself. The statute's first paragraph explains that a prevailing claimant is entitled to "damages adequate to compensate *for the infringement*." Its second paragraph then sets forth two rules regarding those damages "for the infringement." First, they may be found by the jury or assessed by the court. Second, "the court may increase the damages up to three times the amount found or assessed." The damages that may be increased are, of course, the damages from the first paragraph—*i.e.*, damages "for the infringement." Thus, whether increased or not, the only damages authorized under section 284 are damages awarded *for the infringement* to compensate for or punish infringing conduct.

Consequently, section 284 does not allow a court to award compensatory damages for infringement and then to award enhanced damages for something else, like unrelated discovery or other non-infringement-related bad conduct that may justify an award of attorneys' fees. If Congress had intended that result, it would have written a statute that provided for compensatory damages for infringement and then separately granted the court discretion to award punitive damages for other wrongdoing. The statute Congress actually wrote, section 284, expressly links the compensatory damages to the additional damages by only permitting the court to "increase" the amount awarded for the infringement, not to create a new

category of damages for conduct unrelated to the infringement.

This reading of the statute is confirmed by both common sense and the statutory structure. A defendant should not face treble, as opposed to single, damages for engaging in conduct that would not even entitle the plaintiff to single damages. Nor is a defendant's act of infringement any more culpable simply because some years later a document is withheld during discovery. As the Federal Circuit has rightly recognized, treble damages are inappropriate to punish "misconduct in the prosecution of or litigation over a patent" because those acts "are not related to the underlying act of infringement and say nothing about the culpability of the infringer." *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 (Fed. Cir. 1996); *see also Read Corp. v. Portec, Inc.*, 970 F.2d 816, 831 (Fed. Cir. 1992) ("[I]f infringement is innocent, increased damages are not awardable for the infringement." (alterations omitted)).

Any non-infringement-related conduct deserving of sanction is covered by section 285's attorneys' fees provision, which applies to the exceptional conduct of both patentees and alleged infringers. As this Court explained in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014), section 285 grants the district court broad discretion to award attorneys' fees to punish litigants for "the unreasonable manner in which the case was litigated." *Id.* at 1756. When a litigant withholds discovery material, refuses to engage in settlement discussions, harasses the opposing party, or engages in excessive motions practice, that litigant may be held liable for attorneys'

fees, but it should not also be punished with enhanced damages. Indeed, permitting courts to punish unreasonable litigation conduct under both section 284 and section 285 would create a fundamental imbalance in patent litigation: whereas plaintiffs could receive both increased damages *and* attorneys' fees for their opponents' bad-faith litigation tactics, defendants would be limited to attorneys' fees, as defendants never have any damages to increase. This confirms that enhanced damages should be specific to willful infringement.

Reading the statute to authorize increased damages only for infringement-related conduct also avoids the constitutional concerns that would be raised by a punitive damages statute with no limitations whatsoever. If damages could be increased not only for infringement-related conduct, but also for negotiation tactics, or discovery behavior, or settlement strategies, or courtroom demeanor, or anything else of the district court's choosing, section 284 would run headlong into this Court's precedent requiring that parties have fair notice of the types of conduct that can subject them to punishment. *See BMW of N. Am., Inc. v. Gore*, 517 U.S. 559, 574 (1996). The better reading is that section 284 requires that punitive damages be based on the underlying tortious conduct.

2. Because increased damages are appropriate only for infringement-related misconduct, the question then becomes what degree of infringement-related wrongdoing warrants increased damages. The answer to that question comes from this Court's cases on punitive damages. Both this Court and the courts

of appeals have long recognized that enhanced damages under section 284 are punitive. *See, e.g.*, *Seymour v. McCormick*, 57 U.S. 480, 489 (1853) ("The power to inflict vindictive or punitive damages is committed to the discretion and judgment of the court within the limit of trebling the actual damages found by the jury."); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964) (discussing "punitive or 'increased' damages under the statute's trebling provision"); *Sensonics, Inc. v. Aerosonic Corp.*, 81 F.3d 1566, 1574 (Fed. Cir. 1996) ("[E]nhanced damages are punitive, not compensatory.").

Punitive damages are appropriate only to punish the most reprehensible conduct. They may not be awarded for mere negligence or a lack of due care, but rather require a showing of heightened culpability. Indeed, imposing punitive damages absent an unusually high level of reprehensibility violates Due Process. *See Gore*, 517 U.S. at 575 ("Perhaps the most important indicium of the reasonableness of a punitive damages award is the degree of reprehensibility of the defendant's conduct."). Accordingly, "[t]he prevailing rule in American courts ... limits punitive damages to cases" where the defendant's conduct is "outrageous," "willful, wanton, and reckless," or "even more deplorable." *Exxon Shipping Co. v. Baker*, 554 U.S. 471, 493 (2008) (quotation marks omitted). Likewise, the Restatement describes punitive damages as appropriate to punish a defendant's "outrageous" behavior or his "reckless indifference to the rights of others." Restatement (Second) of Torts §908 (1979). Countless other sources confirm the principle. *E.g.*, W Page Keeton et al., *Prosser and Keeton on the Law of Torts* §2 at 9-10 (5th ed. 1984) ("There is general

agreement that ... mere negligence is not enough, even though it is so extreme in degree as to be characterized as 'gross.'"). Because increased damages under section 284 are punitive, they require, at a minimum, reckless or willful behavior. That section 284 does not actually use the word "willful" or "reckless" is irrelevant; that degree of fault is necessitated by the nature of punitive damages.

3. Although the terms "reckless" and "willful" are not "self-defining," the common law has generally understood them to describe "conduct violating an *objective* standard." *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47, 68 (2007) (emphasis added). An actor is reckless when it acts despite an objectively "'high risk of harm that is either known or so obvious that it should be known.'" *Id.* (quoting *Farmer v. Brennan*, 511 U.S. 825, 836 (1994)). If a defendant's act does not entail an objectively high risk of harm, his act is not reckless, regardless of his intent at the time. *See Farmer*, 511 U.S. at 836 (recklessness requires "an unjustifiably high risk of harm"). Applying that rule in *Safeco*, this Court held that a company's failure to provide notice required by the Fair Credit Reporting Act was reckless if the company did not provide notice despite an objectively high likelihood that it was required to do so. 551 U.S. at 69-70. "It is this high risk of harm, *objectively assessed*, that is the essence of recklessness at common law." *Id.* at 69 (emphasis added).

Although the defendant's state of mind is relevant in that he must "know[] or hav[e] reason to know" that his act entails a high risk of harm, Restatement (Second) of Torts §500, his subjective beliefs are

irrelevant to the threshold objective question of whether the act actually entails that high risk of harm. Accordingly, the *Safeco* Court explained that a FCRA defendant's actual belief about whether it was required to provide notice was irrelevant. *Id.* at 70 n.20 ("To the extent [plaintiffs] argue that evidence of subjective bad faith can support a willfulness finding even when the company's reading of the statute is objectively reasonable, their argument is unsound."). Consistent with this Court's description of recklessness in *Safeco*, the Federal Circuit in *Seagate* held that increased damages are appropriate when an infringer acts despite a known and objectively high likelihood that its actions infringed a valid patent, regardless of its subjective belief at the time of infringement.

4. These three propositions working together establish that the *Seagate* standard is the correct one. By requiring an objectively high likelihood that a defendant's actions infringed a valid patent, the *Seagate* standard appropriately tethers enhanced damages to the act of infringement and incorporates the correct standard for recklessness. And by requiring a showing that the infringer knew or should have known of the risk of infringement, the *Seagate* standard accords with this Court's punitive damages precedents and ensures that inadvertent infringers do not get punished as if they were knowing infringers.

Contrary to Halo's assertion, *Seagate* has not "created a situation in which patent holders will almost never receive enhanced damages." Halo Br.28. Nor is Stryker correct that a party can avoid enhanced damages by introducing a defense that is "minimally

plausible" or merely "not frivolous." Stryker Br.48, 50. Rather, a defendant can avoid increased damages only by offering an "objectively reasonable" defense that "raise[s] a *substantial question* as to the validity or noninfringement of the patent." *Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates, Inc.*, 776 F.3d 837, 844 (Fed. Cir.) (emphasis added) (quotation marks omitted), *cert. denied*, 136 S. Ct. 189 (2015). Under this robust standard, infringers can be punished with increased damages for a wide variety of infringement-related wrongdoing. To name a few examples, infringers can be punished for deliberate copying without a reasonable defense, concealment of infringing activity, infringement where the infringer has only frivolous defenses, infringement designed to injure a competitor, or continuing infringement after judgment. And they are. One study, for example, found that willful infringement was found in 37.2% of post-*Seagate* patent infringement cases tried to judgment, which was not a statistically significant difference from the pre-*Seagate* state of affairs. Christopher B. Seaman, *Willful Patent Infringement & Enhanced Damages After* In Re Seagate, 97 Iowa L. Rev. 417, 441 (2012).

The *Seagate* standard's focus on infringement-related conduct also moots the semantic debate about how to describe the section 284 test. Whether called willful infringement or bad-faith infringement or wanton infringement or anything else, *see* Gov't Br.27, section 284 permits an award of increased damages only when the infringer acts despite an objectively high risk of infringement. The only type of bad faith relevant to that inquiry is bad-faith infringement, not bad-faith litigation conduct or bad-faith in unrelated

matters; bad-faith infringement is simply willful infringement by another name.

II. This Court Should Reject Petitioners' Invitation To Return The Law Of Enhanced Patent Damages To The Pre-*Seagate* Status Quo.

Petitioners (and the government) ask this Court to discard *Seagate*'s well-grounded standard in favor of the pre-*Seagate* status quo. But the Federal Circuit had a good reason to abandon the pre-*Seagate* test—namely, it wreaked havoc on the patent system for twenty-five years. This Court should reject petitioners' calls for a return to that ill-working, ill-fated, and illogical test.

A. The pre-*Seagate* Standard.

The Federal Circuit established the pre-*Seagate* standard for enhanced damages in *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983). In that case, the Federal Circuit held that an accused infringer with notice of another's patent rights has an "affirmative duty to exercise due care to determine whether or not he is infringing." *Id.* at 1389. Although the Federal Circuit often referred to this "due care" standard as a "willfulness" test, the duty of due care was phrased and operated in practice as a negligence standard. *See Seagate*, 497 F.3d at 1371 ("[T]he duty of care announced in *Underwater Devices* sets a lower threshold for willful infringement that is more akin to negligence."). That "due care" test was subjective and backwards-looking; it focused on the accused infringer's belief at the time of the alleged infringement. *See, e.g., Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 181 (Fed. Cir. 1994)

("In finding that Buckeye's infringement was willful, the jury was required to find ... that Buckeye acted in disregard of the '269 patent and lacked a reasonable basis for believing it had a right to do what it did."). If accused infringers could prove that they, in fact, investigated the possibility of infringement and came to the reasonable legal conclusion that they were in the clear, the accused infringer could avoid enhanced damages. If it could not prove that it had actually relied on a reasonable belief of non-infringement, enhanced damages would be awarded, regardless of how close the issue actually was at the time of the litigation.

By far the best and, frankly, the only practical way for an accused infringer to prove it held a reasonable, contemporaneous belief of non-infringement or invalidity was by introducing a contemporaneous opinion of counsel to that effect. There is no better evidence that a company held a particular legal opinion than that legal opinion itself. In recognition of that fact, the pre-*Seagate* standard required companies to "seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity," *Underwater Devices*, 717 F.2d at 1390, and then to produce that opinion at trial. In fact, for most of the twenty-five years before *Seagate*, an accused infringer's failure to produce an exculpatory opinion at trial "would warrant the conclusion that it either obtained no advice of counsel or did so and was advised that its importation and sale of the accused products would be an infringement of valid U.S. patents." *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986).

The Federal Circuit in 2004 eliminated the adverse inference, *see Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1344 (Fed. Cir. 2004),[2] but failure to introduce an opinion of non-infringement remained all but fatal to a willfulness defense, as no other evidence was nearly as probative of due care. *See id.* at 1352 (Dyk, J., concurring in part and dissenting in part) ("[T]he majority opinion does not address whether a potential infringer can satisfy the requirement of due care without securing and disclosing an opinion of counsel."); *see also Finisar Corp. v. DirecTV Grp., Inc.*, 523 F.3d 1323, 1339 (Fed. Cir. 2008) ("[C]ompetent opinion of counsel ... would provide a sufficient basis for [the accused infringer] to proceed without engaging in objectively reckless behavior."); *Seagate*, 497 F.3d at 1369 (noting that an opinion of counsel is "crucial to the analysis"). Thus, even after *Knorr-Bremse*, enhanced damages turned largely on whether the accused infringer produced an opinion of counsel.

B. The pre-*Seagate* Standard Eroded the Attorney-Client Privilege and Undermined the Goals of the Patent System.

Because companies could stave off enhanced damages only by introducing the legal advice they had received, they also were required to waive attorney-client privilege. After all, under well-established

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[2] Congress in 2011 codified *Knorr-Bremse*'s holding in the Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011), 35 U.S.C. §298.

privilege law, introducing communications from counsel waives privilege for "all other communications relating to the same subject matter." *Fort James Corp. v. Solo Cup Co.*, 412 F.3d 1340, 1349 (Fed. Cir. 2005); *see id.* ("The waiver extends beyond the document initially produced out of concern for fairness, so that a party is prevented from disclosing communications that support its position while simultaneously concealing communications that do not."). In tandem, the opinion-of-counsel requirement and the waiver of attorney-client privilege created a regime recognizable only Through the Looking-Glass: plaintiffs were incentivized to make frivolous claims; attorneys were encouraged to provide misleading advice; trials revolved around the least reliable evidence; and defendants could avoid enhanced damages only by staying uninformed or obtaining opinions of counsel with all of the costs and difficulties that doing so entails.

1. The pre-*Seagate* regime incentivized baseless willfulness allegations by bestowing massive benefits upon patentees for conclusory allegations of willful infringement. The incentives were so strong that, according to one study, willfulness was alleged in *over 92%* of patent infringement cases. *See* Kimberly A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 Fed. Cir. B. J. 227, 232 (2005). The reasons for this explosion in willfulness allegations are not difficult to discern. Alleging willfulness typically caused the accused infringer to waive attorney-client privilege, granting the patentee access and insight into the accused infringer's substantive defenses. *Id.* at 232-33. This access also allowed patentees to use their opponents' attorney-client

communications as a sword if the accused infringer's trial defense differed in any way from the pre-litigation opinion. And by alleging willfulness, patentees gained access to reams of documents and e-mails having no bearing on the question of infringement, but that could be used to cast the accused infringer or its employees in a negative light. *See* Kimberly A. Moore, *Judges, Juries, and Patent Cases—An Empirical Peek Inside the Black Box*, 99 Mich. L. Rev. 365, 393 (2000) ("Juries may perceive the patentee who brings an infringement action as a victim and an infringer accused of stealing patented technology, a villain ... The outcome data indicate that juries are more easily persuaded than judges by 'bad guy' evidence."). Alleging willfulness secured all these benefits with no real downside, tilting the playing field dramatically toward patentees and imposing massive settlement pressures on accused infringers with legitimate defenses to infringement allegations.

In addition, the opinion-of-counsel requirement imposed serious financial costs on companies in the technology sector. Obtaining an opinion letter from counsel in 2004 cost between $10,000 and $100,000 per opinion, depending on the complexity of the issues. Nat'l Research Council, *A Patent System for the 21st Century* 118-19 (Stephen A. Merrill, et al. eds., 2004). Those costs add up fast: *Amici* regularly receive notice of new patents, and the number of patents continues to grow rapidly. Obtaining opinion letters for each one of these patents would be cost-prohibitive, forcing *amici* into a high-stakes game of guessing which patentees might one day sue them for willful infringement. Making matters worse, software companies (including some *amici*) launch new

products or substantially update their products multiple times each year, further increasing the cost of satisfying the opinion-of-counsel requirement.

Perversely, the opinion-of-counsel requirement transformed opinion letters from client-directed advice into litigation-directed showpieces, thereby eroding the reliability and accuracy of attorney-client communications. The attorney-client privilege, through its promise of confidentiality, "encourage[s] full and frank communication between attorneys and their clients and thereby promote[s] broader public interests in the observance of law and administration of justice." *Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981). The privilege is one of the pillars of our legal system, ensuring that clients may speak freely to their attorneys and that attorneys may provide uncensored legal advice to their clients. But in the pre-*Seagate* world, both attorney and client knew that any communications would be made public, eliminating the very confidentiality that ensured "full and frank" discussion.

Companies, knowing that their future litigation opponents would have access to all of their communications, were reticent with counsel. And counsel, well aware that the client needed a favorable opinion for any litigation that followed, would not "send written advice to a client with the bad news that they likely infringe a valid patent except under extraordinary circumstances." Mark A. Lemley & Ragesh K. Tangri, *Ending Patent Law's Willfulness Game*, 18 Berkeley Tech. L.J. 1085, 1103 (2003). Instead, counsel would either "remain silent on issues where the news is not good" or would "write one thing

down and tell the client something different orally." *Id.* at 1103-04; *see also* Matthew D. Powers & Steven C. Carlson, *The Evolution and Impact of the Doctrine of Willful Patent Infringement*, 51 Syracuse L. Rev. 53, 105 (2001) ("Because of the risk of having otherwise-damaging documents produced at trial, sophisticated parties undoubtedly restrict the scope of their relationship with their lawyers, and expect their lawyers to prepare only exculpatory opinions that suggest no wrongful conduct on the part of the accused."). In this way, the pre-*Seagate* regime and its assumption that advice-of-counsel opinions would be submitted and attorney-client privileges would be waived naturally eroded the very honesty that attorney-client privilege is designed to safeguard.

Advice-of-counsel letters thus became "advocacy showpieces" instead of unvarnished legal advice, defeating the very purpose of those letters. Lemley & Tangri at 1104. If companies actually believed the overly optimistic opinions of non-infringement they received, they would continue potentially infringing activities unchecked and would be unduly inclined to litigate. *Id.* If they recognized the opinions as something less than truly candid advice, then they were left to make their own assessment of infringement without the aid of unvarnished counsel, which is not conducive to good business decisionmaking. *Id.* In either event, the patent system as a whole suffered.

Despite the increasing unreliability of advice-of-counsel letters, there was no corresponding decrease in their centrality in determining whether to award increased damages. Just as before, willfulness claims

rose and fell on whether accused infringers had received contemporaneous opinions of non-infringement—even though everyone understood that those opinions had become primarily litigation tools, not candid legal analysis.

2. The pre-*Seagate* standard not only interfered with the attorney-client relationship and patent litigation, it stifled innovation. The law created incentives for company employees to avoid learning about new patents. If they never learned about new patents, companies would have no duty to obtain an opinion of counsel about those patents and they could not be forced to waive attorney-client privilege to prove their lack of willfulness. Unsurprisingly, then, companies in the pre-*Seagate* era responded to these incentives and were reluctant to read patents. *See Knorr-Bremse*, 383 F.3d at 1351 (Dyk, J., concurring in part and dissenting in part) ("[T]he due care requirement has fostered a reluctance to review patents for fear that the mere knowledge of a patent will lead to a finding of lack of due care."); FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, ch. 5, at 29 (2003) ("[E]xposure to willfulness charges in fact discourages firms from determining what patents they might be infringing."); Nat'l Research Council, *A Patent System for the 21st Century* 119 (Stephen A. Merrill, et al. eds., 2004) ("[E]xposure to claims of willful infringement has led to a practice of deliberately avoiding learning about issued patents, a development sharply at odds with the disclosure function of patent law.").

This reluctance to review patents undermines the

primary purpose of the patent system. The patent system was designed to encourage innovation. It does so not only by granting inventors a temporary monopoly to exploit their inventions, but also by ensuring that new technologies are disclosed to the public. Disclosure of a new invention "will stimulate ideas and the eventual development of further significant advances in the art." *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481 (1974). Indeed, once a patent is disclosed, the law encourages inventors to "design around" patents, thereby creating new innovations and further advancing the technology. *See Read Corp. v. Portec, Inc.*, 970 F.2d 816, 828 (Fed. Cir. 1992) ("We have often noted that one of the benefits of the patent system is the incentive it provides for 'designing around' patented inventions, thus creating new innovations."). It is therefore important to "the Progress of Science and useful Arts," U.S. Const. art. I, §8, cl.8, that the inventing public reads patents.

The converse proposition is also true: innovation can be stifled when the public fears reading patents. When that happens, companies could remain unaware of new technologies that could prompt independent innovation or potential licensing opportunities; companies cannot purposefully design around patents, and perhaps find a better means to a similar end, because they are too fearful to learn about those patents in the first place; and companies are actually more likely to accidentally infringe patents because they will not know what has already been patented. The pre-*Seagate* standard thus created a regime with less innovation and more infringement, which worked to nobody's benefit—except, perhaps, those who make

their living by suing for patent infringement.

C. Petitioners' Proposed Standards Would Recreate the Very Problems *Seagate* Solved.

1. In *Seagate*, the Federal Circuit was able to craft a standard that was both consistent with general legal principles and solved the many problems plaguing patent law. *Seagate* solves the opinion-of-counsel quandary by shifting focus away from the legal opinion a defendant in fact held at the time of the alleged infringement, obviating the need to produce an opinion letter. Under *Seagate*, an accused infringer can defeat a willfulness allegation by proving it has an objectively reasonable defense to infringement, without also being required to prove that it was relying on that same defense at the time of the alleged infringement. *See Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, 807 F.3d 1283, 1301 (Fed. Cir. 2015) ("[W]e have repeatedly assessed objective reasonableness of a defense without requiring that the infringer had the defense in mind before the litigation."); *see also Safeco*, 551 U.S. at 70 & n.20. Prudent companies will still obtain candid opinions of counsel to help guide their conduct, but those opinions no longer must be produced for litigation, and will be fashioned on the assumption that the attorney-client privilege will shield them from disclosure. Instead of producing artificial advice-of-counsel opinions, defendants can rely on the objective strength of their non-infringement or invalidity defenses to defeat willfulness allegations. *See* Seaman, *supra*, at 454 (finding that after *Seagate*, willfulness was found at the same rate regardless of whether or not a defendant

introduced an opinion of counsel).

Seagate also returns balance to the patent system by evening the playing field between patentees and accused infringers. Companies continue to be deterred from willful infringement by the threat of treble damages, but they are less afraid to read patents, less afraid to design around patents, and less afraid to disregard patents whose validity is subject to objective question. When litigation becomes necessary, accused infringers are no longer disadvantaged by mandatory waiver of attorney-client privilege or extreme settlement pressures.

2. In spite of all this, petitioners call for a return to the bad old days, arguing that the willfulness inquiry should once again focus on the accused infringer's subjective beliefs at the time of the alleged infringement. In particular, petitioners take issue with *Seagate*'s objective prong, complaining that it disregards "the facts that faced a defendant when it infringed," Halo Br.24, and that it permits defendants "to devise an after-the-fact defense" that it never actually relied on, Stryker Br.50. As an initial matter, the *Seagate* standard *does* look to the objective facts as they existed at the outset of infringement. For example, the state of other litigation concerning the patent, the state of U.S. Patent and Trademark Office actions, and other objective facts will all be considered as of the time of the defendant's allegedly infringing acts.

Petitioners are correct, however, that *Seagate* does not solely require an inquiry into the alleged infringer's subjective state of mind at the time of infringement. But this was not some kind of oversight

by the Federal Circuit, nor is it a flaw with the *Seagate* standard. Rather, *Seagate*'s focus on objective reasonableness in addition to subjective beliefs comes directly from this Court's *Safeco* opinion, and it directly addresses the opinion-of-counsel problem that bedeviled the pre-*Seagate* era. Undeterred, petitioners offer up legal standards that would return patent law to the pre-*Seagate* status quo. Halo, for example, argues that the section 284 inquiry should turn on "whether (and how much) the defendant investigated a charge of infringement," Halo Br.11, and that district courts should gauge whether "the defendant's investigation [was] non-existent, cursory, average, or thorough," *id.* at 27. Stryker offers the same, arguing that enhanced damages should depend on "whether the defendant reasonably investigated and evaluated the possibility of infringement." Stryker Br.40. Likewise, the government posits a "time of infringement" rule, arguing that the section 284 "analysis should turn on the facts and circumstances known to the defendant *at the time of the infringing conduct*." Gov't Br.28-29. All three stress that defendants should be required to show that their defenses at trial match the reasoning that prevailed within their companies at the outset of the infringement.

All of these standards would re-institute the *de facto* opinion-of-counsel requirement. When petitioners speak of an "investigation," they are referring to a legal investigation conducted by opinion counsel. The only way for accused infringers to prove that they "evaluated the possibility of infringement" in a "thorough" manner is to produce the evaluative document itself—*i.e.*, to produce the opinion of non-

infringement or invalidity. Stryker admits as much, conceding that under its proposed standard, an accused infringer could avoid treble damages by "introduc[ing] evidence that it sought and received good-faith legal advice." Stryker Br.41. That, of course, would force the defendant to waive attorney-client privilege, which would bestow innumerable litigation benefits upon the plaintiff, and so on.[3]

3. Returning to the pre-*Seagate* status quo is misguided for all of the reasons already expressed, but even more so given the recent proliferation of patent assertion entities. *See eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) ("An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."). Although there may be room for disagreement about what constitutes a PAE, there is no serious dispute that suits filed by PAEs now dominate the patent docket of the federal courts. Suits by PAEs now account for "a majority of all patent assertions in the country and an even higher percentage in the information technology (IT) industry." Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 Colum. L. Rev.

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[3] Lest there be any doubt, Congress' enactment of 35 U.S.C. §298 does not eliminate the problem. Section 298 does prohibit using a defendant's failure to obtain an opinion of counsel against it. But it does not change the fundamental truth that under the pre-*Seagate* duty of care standard, the only way for an alleged infringer to be sure that it could successfully fend off enhanced damages would be producing an opinion of counsel (and waiving privilege).

2117, 2119 (2013); *see id.* at 2123 ("[T]he number of troll suits has grown rapidly in recent years.").

As this Court has recognized, the business strategy of many PAEs is to make demands upon as many entities as possible, "very broadly and without prior investigation." *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1930 (2015) (quotation marks omitted). These PAEs "depend on sheer numbers rather than the quality and value of any given patent," and their strategy is successful because they have "so many patents that read on a particular target that a challenge to the validity of the patents makes little sense." Lemley & Melamed, *supra*, at 2127. As bad as the opinion-of-counsel problem was before *Seagate*, it will be several orders of magnitude worse if companies must obtain opinions of counsel every time a PAE sends a notice of infringement or a demand letter. Requiring companies to comply with an opinion-of-counsel requirement with both PAEs and patents at an all-time high would be courting disaster, especially in light of the negligible costs to PAEs of sending infringement letters and the substantial costs of obtaining opinions of counsel as an accused infringer. Indeed, to the extent that Members of this Court have concerns about the current state of patent litigation—including its tendency to reward questionable patents and concentrate litigation in certain forums—there is no surer way to make the system worse, than to return to the pre-*Seagate* regime.

III. *Octane* and *Highmark* Have no Bearing on *Seagate*.

This Court's opinions in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014),

and *Highmark Inc. v. Allcare Health Management System, Inc.*, 134 S. Ct. 1744, 1746 (2014), do not call *Seagate* into question. In *Octane* and *Highmark*, this Court interpreted section 285, which governs the award of attorneys' fees in patent cases. Section 285, in its entirety, provides: "The court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. §285. Upon that scant statutory text, the Federal Circuit had imposed an "overly rigid" standard that permitted attorneys' fees only for "litigation-related misconduct of an independently sanctionable magnitude" or if "the litigation was both 'brought in subjective bad faith' and 'objectively baseless.'" *Octane*, 134 S. Ct. at 1756. This Court rejected the Federal Circuit's formulation, adopting instead a flexible inquiry that permits district courts to engage in a "case-by-case exercise of their discretion, considering the totality of the circumstances." *Id.* Notably, that standard allows for attorneys' fees to be awarded to either patentees or accused infringers.

Petitioners argue that the Federal Circuit repeated the same mistake as in *Octane* by giving substance to the discretionary power provided by section 284. *See* Halo Br. 18-19; Stryker Br. 15-17. That simplistic argument ignores the many textual differences between sections 284 and 285, and the many differences in context between an enhanced damages award and an attorneys' fees provision. Indeed, the very premise of petitioners' argument—that a statute granting discretion to district courts must always be interpreted as granting *unbounded* discretion—is contradicted by several of this Court's cases. *See, e.g.*, *Martin v. Franklin Capital Corp.*, 546

U.S. 132, 139 (2005) ("Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike."); *Indep. Fed'n of Flight Attendants v. Zipes*, 491 U.S. 754, 758 (1989) ("[I]n a system of laws discretion is rarely without limits."). *Octane* and *Highmark* do not stand for the broad principle that courts may not provide substance to a discretionary standard; rather, they hold only that nothing about section 285 justified the particular standard the Federal Circuit had adopted. Here, on the other hand, section 284 provides both textual and contextual support for the *Seagate* test.

Whereas section 285 contains a grand total of fourteen words and provides no textual guidance for the award of attorneys' fees, section 284's text tethers increased damages to the act of infringement itself. *See supra* Part I. And while section 285 appropriately captures the full range of litigation conduct that either party can engage in, section 284 focuses exclusively on the defendant and its infringement-related conduct. Thus, in adopting the *Seagate* standard, the Federal Circuit was not repeating a mistake, but rather keeping faithful to the text of the statute it was interpreting.

Moreover, while fee-shifting determinations are inherently discretionary and within the district court's broad equitable powers—making an unbounded totality-of-the-circumstances test suitable in that context—courts do not have the discretion to treble damages as they see fit in the absence of a statutory provision endowing them with that extraordinary power. Indeed, Due Process requires that punitive

damages regimes provide defendants fair notice of the conduct that will subject them to punitive damages, *see Gore*, 517 U.S. at 574, and meaningful appellate review, *see Honda Motor Co. v. Oberg*, 512 U.S. 415, 432 (1994), making petitioners' request for an amorphous totality-of-the-circumstances test wholly inappropriate. In addition, as already noted, the case law unequivocally mandates that punitive damages be available only for particularly egregious conduct, necessitating the willfulness standard the Federal Circuit adopted.

Equally important, the function and practical consequences of attorneys' fees and trebling damages are not the same. Attorneys' fees and willful infringement sanctions often serve very different ends and have highly disparate effects. While §285's primary aim is to "compensat[e] ... the prevailing party for its monetary outlays in the prosecution or defense of the suit." *Raylon, LLC v. Complus Data Innovations, Inc.*, 700 F.3d 1361, 1373 (Fed. Cir. 2012) (Reyna, J., concurring), the treble damages that follow a willful infringement finding are meant to serve a punitive function and raise distinct concerns about overdeterring legitimate conduct.

IV. At A Minimum, Any Test For Enhanced Damages Must Contain An Objective Component.

1. Even if this Court ultimately determines that *Seagate* is not the proper standard for increased damages under section 284, the Court should ensure that any standard it adopts retains an objective component. For starters, any standard focusing exclusively on the accused infringer's subjective

beliefs will restore the opinion-of-counsel requirement that plagued patent law for so many years. An objective component, on the other hand, by permitting accused infringers to defeat willfulness allegations by relying on the objective strength of their infringement defenses, allows accused infringers to avoid treble damages without being forced to waive attorney-client privilege.

On top of that, retaining an objective component would permit the Federal Circuit to meaningfully oversee the further development of enhanced damages law, promoting uniformity in the patent system. *See Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831, 851 (2015) ("Uniformity is a critical feature of our patent system."). A wholly subjective test, on the other hand, would likely come with abuse-of-discretion review, *see Highmark*, 134 S. Ct. at 1748, limiting the Federal Circuit's ability to ensure that enhanced damages are awarded uniformly across the country. Due process demands not just appellate review of punitive damages awards, *see Oberg*, 512 U.S. at 432, but meaningful legal standards for reviewing courts to apply, *id.* at 435-36 (Scalia, J., concurring). Allowing awards of enhanced damages without meaningful Federal Circuit oversight would be to invite differing standards in different parts of the country, making it impossible for companies to have settled expectations for litigation.

Indeed, PAEs already have proven willing and able to exploit cities and courthouses because of their perceived amenability to patent infringement claims. For example, in the first half of 2015, a staggering 44.4% of all patent cases were filed in the Eastern

District of Texas, and most of those by PAEs. *See* Daniel Nazer, *Deep Dive: Why We Need Venue Reform to Restore Fairness to Patent Litigation*, Electronic Frontier Foundation (Aug. 17, 2015), https://perma.cc/VNY3-9HX7; *id.* ("[T]he Eastern District's speed, large damage awards, outstanding win-rates, likelihood of getting to trial, and plaintiff-friendly local rules suddenly made it the venue of choice for patent plaintiffs." (alteration and quotation marks omitted)). If the Federal Circuit is unable to ensure that enhanced damages are awarded for the same conduct no matter the venue, PAEs will undoubtedly begin flooding favorable venues with willfulness suits, to the detriment of certainty and uniformity in the law.

Meaningful oversight is all the more important given the stakes involved. Treble damages figures in patent cases can reach into the hundreds of millions and beyond. *See, e.g.*, Stryker Pet.App.119a (district court awarded $152 million in punitive damages). As this Court has noted, when a district court's disposition of an issue has substantial monetary consequences, that issue should be "reviewed more intensively." *Pierce v. Underwood*, 487 U.S. 552, 563 (1988); *see also Oberg*, 512 U.S. at 432 ("Punitive damages pose an acute danger of arbitrary deprivation of property."). Protection against arbitrary deprivation of property can only be assured if the standard is objective and the review is *de novo*.

Finally, an objective prong would help eliminate frivolous willfulness allegations at the summary judgment stage. Weeding out these allegations before trial will not only save resources, it will also prevent

patentees from introducing "bad guy" evidence, *see* Moore, *supra*, 99 Mich. L. Rev. at 393, that is purportedly germane to the issue of willfulness but in reality is intended solely to present the accused infringer as a villain to the jury. As discussed *supra*, juries can be persuaded by such character evidence to find infringement, even where the actual evidence of infringement is flimsy. *Id.*

To the extent this Court believes that either of the cases before it was wrongly decided, the objective standard itself is not to blame. Any shortcoming in the *application* of the objective test in either case is not a reason to discard the test itself. Indeed, concerns with the application of the test favor a more objective and reviewable inquiry, as opposed to an amorphous totality-of-the-circumstance test that essentially guarantees that unjust results will be shielded from correction on appeal.

CONCLUSION

For the reasons set forth above, this Court should adopt the *Seagate* standard and affirm the judgments below. At a minimum, however, this Court should adopt a standard that incorporates an objective component.

Respectfully submitted,

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